Atlantic Pilotage Authority
Annual Report
2007
Canada

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Marine Pilotage

Marine Pilotage is one of the oldest professions in the world, with reference to pilots found in some of the earliest recorded history. In Europe, a pilot was originally known as a **lodesman**, derived from the German word for lodestone, an early compass. The word pilot has evolved from Dutch terminology describing a plumb lead used for measuring the depth of water. Modern pilots, such as those employed by the Atlantic Pilotage Authority, have much more modern and sophisticated equipment available, but are still called upon to provide skilled shiphandling and expert navigation.

The Atlantic Pilotage Authority employs professional pilots who must have a thorough knowledge of the local pilotage area, including port infrastructure and sub-surface characteristics of the port. Their knowledge must include the handling characteristics of each type of vessel calling on their port so that they will be able to accurately judge the effect of wind, current, and tidal influences on the ship they are piloting. In addition to the knowledge required, pilots must remain in good physical condition so they can safely transfer between a ship and a pilot boat in adverse sea states and weather conditions.

An apprentice pilot, upon first joining the Authority, must have extensive experience at sea, and have met prescribed certification requirements as a mariner. However, that is only the beginning of the process of becoming a fully effective pilot. The natural ability of an apprentice pilot is augmented by a comprehensive training and mentoring program. This foundation knowledge is enhanced by ongoing training for all pilots. This level of training contributes to the Atlantic Pilotage Authority's goal of providing a safe and efficient service to vessels plying the waters of the Atlantic region.

During 2007, the Atlantic Pilotage Authority added two new pilot boats to its fleet. The cover photograph is of the Avalon Pilot undergoing sea trials. This vessel, along with the sister ship Atlantic Pilot, will enable the Authority to maintain safe, efficient, and reliable pilotage service in Placentia Bay, NL.

Mandate

The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain, and administer, in the interest of safety, an efficient pilotage service within the Atlantic region.

Mission

The Authority will accomplish its mandate by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of the industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

Vision

To continue to provide an effective pilotage service throughout the Atlantic region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

Corporate Headquarters

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Letter from the Chair & CEO

March 7, 2008

The Honourable Lawrence Cannon, P.C., M.P.
Minister of Transport, Infrastructure and Communities
29th Floor, Tower "C"
Place de Ville
Ottawa, Ontario K1A 0N5

Dear Sir:

Pursuant to Section 150 of the *Financial Administration Act*, the Atlantic Pilotage Authority is pleased to present its Annual Report for 2007.

The Authority's major achievement in 2007 was the completion of two new state of the art pilot vessels. The *Avalon Pilot* and *Atlantic Pilot* were built in the Atlantic region, and designed for the severe weather conditions often encountered in the Placentia Bay area of Newfoundland. These vessels are capable of providing a stable and safe boarding platform for pilots, and will result in better service delivery for Placentia Bay customers. The Authority intends to continue to replace its aging pilot launches over the next few years, with emphasis on the ports of Halifax, NS and Saint John, NB.

During 2007, the Office of the Auditor General of Canada completed the special examination of the Authority as required at least once every five years under section 138 of the *Financial Administration Act*. The Auditor General reported to the Board on June 13, 2007, and expressed the opinion that there were no significant deficiencies in the systems and practices of the Authority. A copy of the special examination may be found on the Authority's web site *(www.atlanticpilotage.com)*.

Overall assignments during 2007 were approximately the same as the previous year; however, revenues improved by 14.3% over 2006. This revenue increase was as a result of a recovery in the ports of Placentia Bay and Saint John, N.B., from a poor performance in 2006. Expenditures also increased by 11.3% from 2006. As a result, the Authority did not meet its goal of achieving a small surplus for the year. However, the loss incurred in 2007 was reduced significantly from that of 2006. During the year, the Authority's marine pilots completed 10,134 assignments, with 99.89% being handled without incident.

The Atlantic Pilotage Authority believes strongly in communication and consultation. During 2007, the Authority had 16 scheduled meetings with our customers. These meetings were generally very well attended, and financial and operational issues were discussed fully and openly with the participants. In addition, the Authority attends many meetings sponsored by other parties, and frequently meets with customers on a less formal basis.

The Members of the Board continue to actively participate in establishing effective corporate governance practices and maintaining diligent oversight of financial management and control. During 2007, the Directors began a process of directional planning which entails longer term strategic planning of 10 to 15 years to retain a clear focus on the overall direction of the Authority.

It is our pleasure to report that the Atlantic Pilotage Authority continues to provide an exemplary service, in the safest and most economical manner, to the satisfaction of its customers, and within the parameters of the *Pilotage Act*.

Respectfully submitted,

Anthony McGuinness
Chief Executive Officer

Tom Calkin
Chair
BSc.C.E., M.B.A., P.Eng., CMC

DIRECTORS, EXECUTIVE & MANAGEMENT

BOARD OF DIRECTORS. Front row: Captain Ian Swan, Pilot Representative, Halifax, NS; Yvon Dufuur, Shipping Industry Representative, Dartmouth, NS; Doug Tilley, Public Sector Representative, St. John's, NL; Captain Don Duffy, Pilot Representative, Public Landing, NB. Back row: Jim Stoneman, Shipping Industry Representative, Halifax, NS; Tom Calkin, BSc.C.E., M.B.A., P.Eng., CMC, Chair, Bedford, NS; Gerard Fitzpatrick, FCA, Public Sector Representative & Vice Chair, Charlottetown, PE.

EXECUTIVE & MANAGEMENT: Left to right: Peter MacArthur, CMA, Chief Financial Officer; Captain Anthony McGuinness, Chief Executive Officer; John Griffin, Operations Manager; Brian Bradley, CGA, Accountant; Captain Patrick Gates, Director of Operations; Nancy Gordon, Administrative Manager; Elizabeth Stewart, Human Resources Administrator; Elaine Lockhart, Executive Assistant.

The Avalon Pilot under construction at A. F. Theriault and Sons shipyard, Meteghan River, NS.

The Atlantic Pilot being christened on November 15, 2007.

2007 Highlights

The Atlantic Pilotage Authority completed construction of two new 19 metre aluminum pilot boats for the Placentia Bay area during 2007. The "Avalon Pilot" and "Atlantic Pilot" are state of the art vessels built to the stringent specifications of Lloyd's Register, the first pilot boats in Canada to be built to this standard. The sister ships were built by the A. F. Theriault and Sons Limited shipyard in Meteghan River, NS. The double chine hull used in the vessels was designed by Camarc Ltd, based in the UK, with the remaining detailed design work completed by Lengkeek Vessel Engineering of Dartmouth, NS. The boats are powered by twin 925 hp Caterpillar diesel engines, and operate at a service speed of 20 knots. The boats are very robust, and have been ice strengthened to operate in 25 cm of ice, with ice notation by Lloyd's Register. They also feature heated decks and man overboard recovery platforms to enhance safety.

Each year, the Saint John Port Authority honours an organization that makes an outstanding contribution to the Port of Saint John. In 2007, the Port recognized the Saint John Marine Pilots employed by the Atlantic Pilotage Authority. The pilots received the Port Award of the Year during the annual Ports Days conference on June 12, 2007.

The Authority celebrated its 35th anniversary of operation in 2007. During the year, the anniversary was marked by many of the Authority's customers and stakeholders, with special recognition coming from the Halifax Mission to Seafarers, the Halifax Port Authority, and the Saint John Port Authority.

The arrival of two new pilot boats in Placentia Bay provides the opportunity to focus the picture editorial this year on the pilotage district of St. John's, Placentia Bay, and Holyrood.

The prime economic engine in this area for the Authority is Placentia Bay, with an oil refinery operated by North Atlantic Refining at Come-by-Chance, and an oil transshipment terminal at Whiffen Head operated by Newfoundland Transshipment Limited. Holyrood is home to a large oil-fired electrical generating plant. St. John's remains a popular destination for cruise ships, is the base for the offshore oil industry, and is a service centre for much of Newfoundland and Labrador.

2007 Year in Review

STRATEGIC OVERVIEW

In 2003, the Board identified six strategic areas as priorities for the five year period from 2004 to 2008. The six areas of focus were as follows:

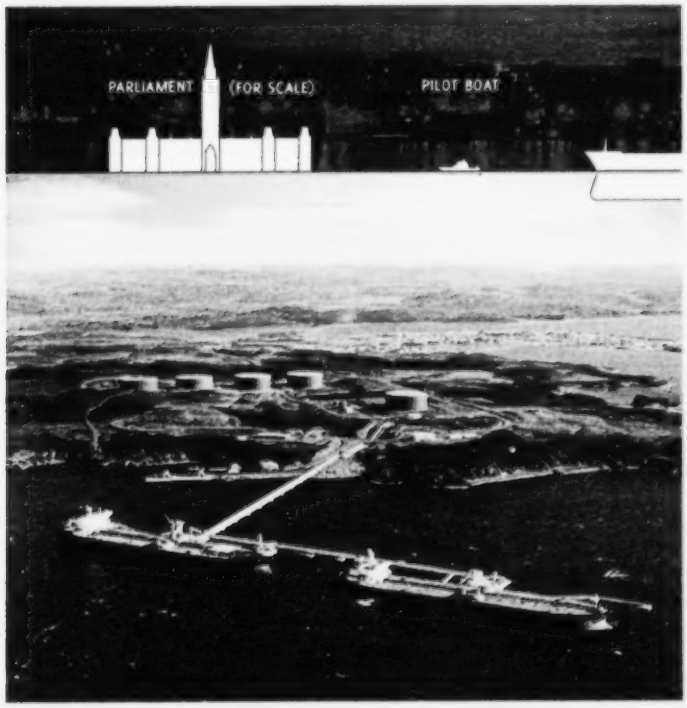
- ***Governance***
- ***Safety of Environment***
- ***Quality of Service***
- ***Financial Self-Sufficiency***
- ***Technology***
- ***Human Resources***

GOVERNANCE

The Atlantic Pilotage Authority is one of four Authorities established in 1972 pursuant to the *Pilotage Act*. Under section 18 of the *Act*, the Authority was mandated "to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within the region".

The Authority is composed of a part time Chair, and not more than six members, referred to herein as the Board of Directors. The present Board structure consists of two pilot representatives, two shipping industry representatives, and two public sector representatives. This representation provides an excellent cross section of marine knowledge, shipping perspective, and business acumen. The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport, Infrastructure, and Communities. The Board has a very active committee structure, and new Board Members are provided with an orientation to the Authority, and training in Corporate Governance upon appointment. Through this structure, the Board has built an effective process and structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority and the functioning of the Board are under continual review, and where necessary, changes are implemented.

During 2007, the Board conducted a directional planning process to provide a long term plan for the Authority. There will be further discussion of the directional planning process in the section entitled "On the Horizon".



Tankers at the Newfoundland Transshipment Limited Terminal at Whiffen Head, Placentia Bay, NL.

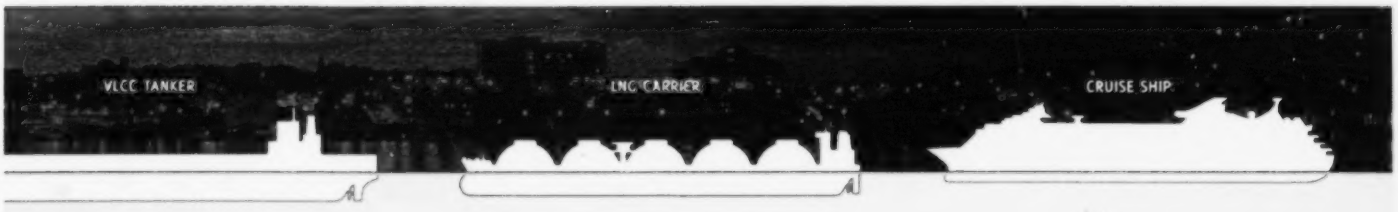
SAFETY OF ENVIRONMENT

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. During 2007, there were no circumstances detected that warranted the application of the PRMM process.

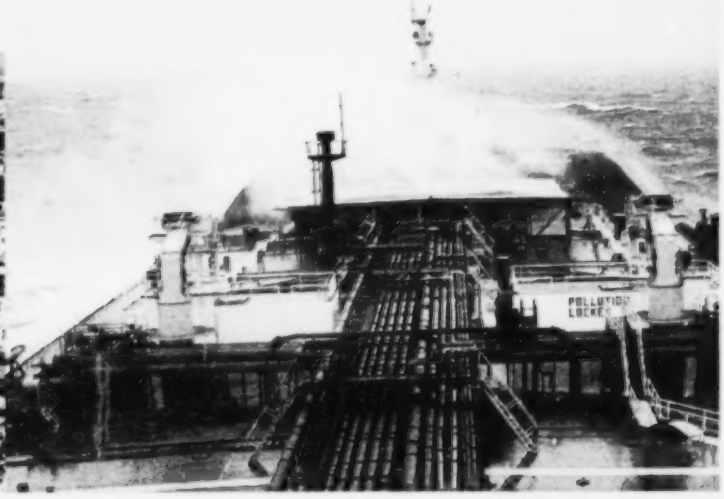
The Authority and its pilots are keenly interested in ensuring that safety is not compromised when new facilities are built or a change in traffic patterns is noted in a port. On many occasions, ports and industry request the input of the Authority and pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. As an example, the Authority and the Saint John pilots were consulted with respect to the design and positioning of the new liquefied natural gas (LNG) terminal in the port. The Placentia Bay area pilots have been involved in a similar manner for the proposed Newfoundland LNG Ltd terminal in Placentia Bay.

Shipping Incidents

During 2007, there were 11 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are described in the following table:



The harbour at St. John's, NL.



Waves break over the bow of a tanker approaching Placentia Bay, NL.

TYPE OF INCIDENT	2007	2006
Contact with wharf	5	3
Contact with port equipment	2	0
Contact with lock	2	2
Contact with ship	1	0
Contact with sea bed	1	0
Contact with buoy	0	1
Year end total	11	6

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.89%of the 10,134 pilotage assignments were incident free.

QUALITY OF SERVICE

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report our financial results, discuss operational issues, and exchange information. During 2007, the Authority attended 16 consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. These included three meetings in each of the ports of Saint John, Restigouche, and Halifax; two meetings in each of St. John's and Placentia Bay; and one meeting in Canso. Two other meetings were held with the Shipping Federation of Canada to discuss the overall APA operation.

In addition to these meetings sponsored by the Authority, management representatives attended dozens of meetings held by other parties or had individual meetings with stakeholders.

The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. During 2007, the Authority received a total of 49 complaints out of a total of 10,134 assignments. This means that 99.52% of assignments were performed without receiving a complaint from the customer. The most common reason for a complaint to be submitted was due to a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs. All complaints received are included in the above total, regardless of cause.

The recent addition of two fast pilot boats to the APA fleet will improve the quality of service in Placentia Bay. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made. In 2007, an APA pilot boat was deployed in the Sydney area to replace a vessel belonging to a contractor that was deemed sub-standard.

FINANCIAL SELF-SUFFICIENCY

The Authority strives to be self sufficient on a port by port basis, as well as on an overall basis. Tariff adjustments are not imposed across the board throughout all areas, but are targeted to those ports that are projected not to be self-sufficient. The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.

The Authority amended tariff charges for 2007 in eight compulsory pilotage areas: Saint John, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, St. John's, NF, Holyrood, NF, Placentia Bay, NF, and Bay of Exploits, NF. All other tariff charges in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

In recent years there has been significant volatility in activity and revenue in some ports, particularly in Placentia Bay, St. John's, Halifax, and Saint John. The increases in tariff were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

TECHNOLOGY

Investment in technology is important to the Authority in order to satisfy its mandate. Technology is used to increase productivity, improve the quality of service, and assure safe pilotage. A technology committee is in place to examine possible uses of technology for the Authority. The committee membership consists of pilots and management representatives.

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. In 2007, the dispatch center began to be upgraded with software to monitor the AIS transmission signals of all vessels in the four major ports serviced by the Authority. This system will be used to monitor port activities and increase efficiencies in the tasks performed by dispatchers. A new dispatch and billing system was also substantially completed by the end of 2007. These two systems will be fully deployed in 2008.

HUMAN RESOURCES

Staffing

The Authority endeavours to keep an eligibility list of qualified candidates for pilot positions within the Authority. During 2007, the Authority interviewed 22 applicants, and seven of these were found to be qualified and added to the eligibility list. Four candidates from the eligibility list were offered apprentice positions during the year, and there remain eight qualified candidates on the list.

The four apprentice pilots added during 2007 were in four separate pilotage areas. Two of these were added in anticipation of future retirements, and two were in anticipation of increased activity in those areas. During the year, one pilot was placed on long term disability and is not reflected in the number of pilots.

Pilots in Newfoundland must be prepared to cope with fog and ice.

	2007	2006	2005
Number of Personnel*			
Employee pilots	48	45	44
Contract pilots	9	10	10
Pilot Boat	13	13	13
Officers and Administrative	10	10	10
Dispatch	6	6	6

** Full time (or equivalent) personnel on strength as at December 31 of each year.*

Training

A progressive program of pilot training was maintained during 2007 with the input of pilot representatives from each area. Apprentice and junior pilots learn on the job by being mentored by senior pilots. All pilots attend training courses in manned models or simulators early in their careers, followed after some further experience by a more advanced course. Refresher courses are offered periodically to senior pilots. Other courses, such as Bridge Resource Management, are offered to all pilots as well. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of azipod propulsion systems on cruise ships.

The Avalon Pilot during sea trials.

A pretty summer day in St. John's, with an iceberg floating past the Narrows, the entrance to the harbour.

Workplace Safety

The Authority continues to hold frequent Occupational Health and Safety committee meetings and is committed to working in a spirit of consultation with this committee, all employees, and contractors to ensure that a safe and healthy workplace is maintained. The Occupational Health and Safety committee met nine times in 2007.

SPECIAL EXAMINATION

During 2007, the Office of the Auditor General conducted a special examination of the Authority as required by section 138 of the *Financial Administration Act*. The examiners objective was to provide the Authority with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. They concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices, and the Authority is taking action on those recommendations.

INTERNAL AUDIT

The Authority has contracted with an accounting firm for the internal audit function. During 2007, a review of potential internal audit topics was prepared and reviewed by the Audit Committee. The Special Examination recommended that the Authority implement a formal comprehensive risk management framework to cover the entire organization. The Audit Committee determined that the development of this framework should take priority, and therefore the accounting firm was tasked with assisting the Authority in developing such a framework.

FINANCIAL OVERVIEW

The Authority had a net loss of 4.0% of total revenues for 2007. Revenues were 1.7% less than budgeted, and expenditures were 4.5% greater than expected. The budget for 2007 anticipated a small profit of 2.2% of total revenue as the Authority expected to rebound from 2006, which had a significant decline in revenues from previous years.

Budgets are established during the development of the Authority's Corporate Plan, and are based on a forecast of vessel traffic for the year. For 2007, the Authority's actual revenue was $297 thousand below the budgeted revenue. The major areas serviced by the Authority that were significantly below budget on revenue are as follows (expressed in thousands):

Area	Amount below Budget	Primary Reason for Shortfall
Halifax, NS	$ 172	Loss of two container lines
Canso, NS	$ 164	Average ship size smaller than expected
Placentia Bay, NL	$ 145	Temporary shut down of refinery for maintenance

There were several smaller ports that were under budget by lesser amounts. The declining ports were partially offset by activity in Saint John, NB, where construction of an LNG terminal caused a temporary surge in tug and barge activity that resulted in revenue for the port being $471 thousand, or 22.9%, over budget. However, this increase in revenue was disproportionate with the increase in assignments, which were 41% over budget. This is because the tariff derived from a tug and barge is

significantly less than that derived from an average ship. The chart below indicates the budgeted and actual revenue for each of the last five years.

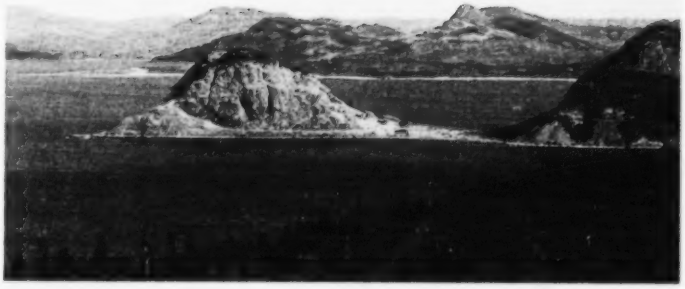
The Authority's overall expenditures for 2007 were $755 thousand greater than budgeted. This budget variance was caused by several factors, with the largest variance ($687 thousand) being in pilot salaries, fees, and benefits. In Saint John, the 41% increase in assignments over budget occurred while one of the six pilots in the port was injured. The combination of the pilotage shortage and the increased traffic resulted in overtime being more than triple the budgeted amount for the year in that port. Increased pilot strength overall, increased share payments for non-compulsory assignments, and a new clause in the collective agreement awarded by arbitration also increased the actual costs over the budgeted costs.

The chart below right indicates the budgeted expenditures against the actual expenditures for 2007, expressed in thousands of dollars.

The Authority had a capital budget of $3.87 million for 2007. The largest capital investment was for the ongoing construction of the two new pilot boats for Placentia Bay. When the budget was established, it was expected that the first new boat, named the *Avalon Pilot*, would be in service during 2006. Due to delays in the project, the boat was not completed until May, 2007. As a result, the capital cost for the construction in 2006 was under budget, and the capital cost for 2007 was over budget. The second identical boat, named the *Atlantic Pilot*, came into service in November, 2007. Some of the capital costs for this boat that were not expected to be incurred until 2008 were incurred in 2007. Please note that the total cost of the two vessels was on budget; however, the timing of the expenditures was not as planned.

Software to monitor Automatic Identification System signals in the four major ports was developed in 2007, to be deployed in 2008. This will be used by the Authority to monitor port activities and increase efficiencies in dispatch. This project increased the capital costs for computer software and equipment for the year.

The capital expenditure budget and actual expenditures for 2007 are indicated in the table above right.



Headlands and islands in Placentia Bay.

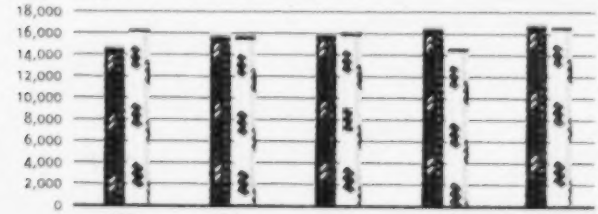
Budgeted and Actual Capital Expenditures, 2007

in thousands of dollars	**Budget**	**Actual**
Pilot boat construction or purchase	3,585	4,499
Pilot boat refit and equipment	150	30
Computer and communications hardware	50	83
Computer software	75	120
Leasehold improvements	10	16
	3,870	4,748

The Authority had 10,134 pilotage assignments during the year, which was 3.4% over budget. A significant part of the increase in assignments was due to the increased tug and barge traffic in Saint John. The actual number of assignments increased from 2006 by 0.9%.

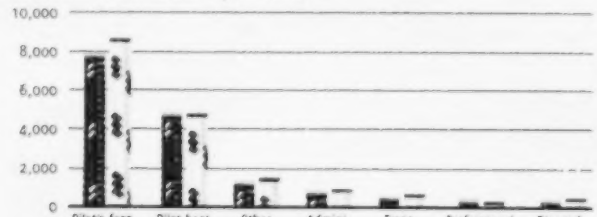
After a disappointing year in 2006, Placentia Bay rebounded in 2007 to produce the highest revenues of any port, contributing 28.2% of the total compulsory pilotage revenue. Halifax was the second largest revenue

Comparison of Budgeted and Actual Revenue 2003-2007, in thousands of dollars

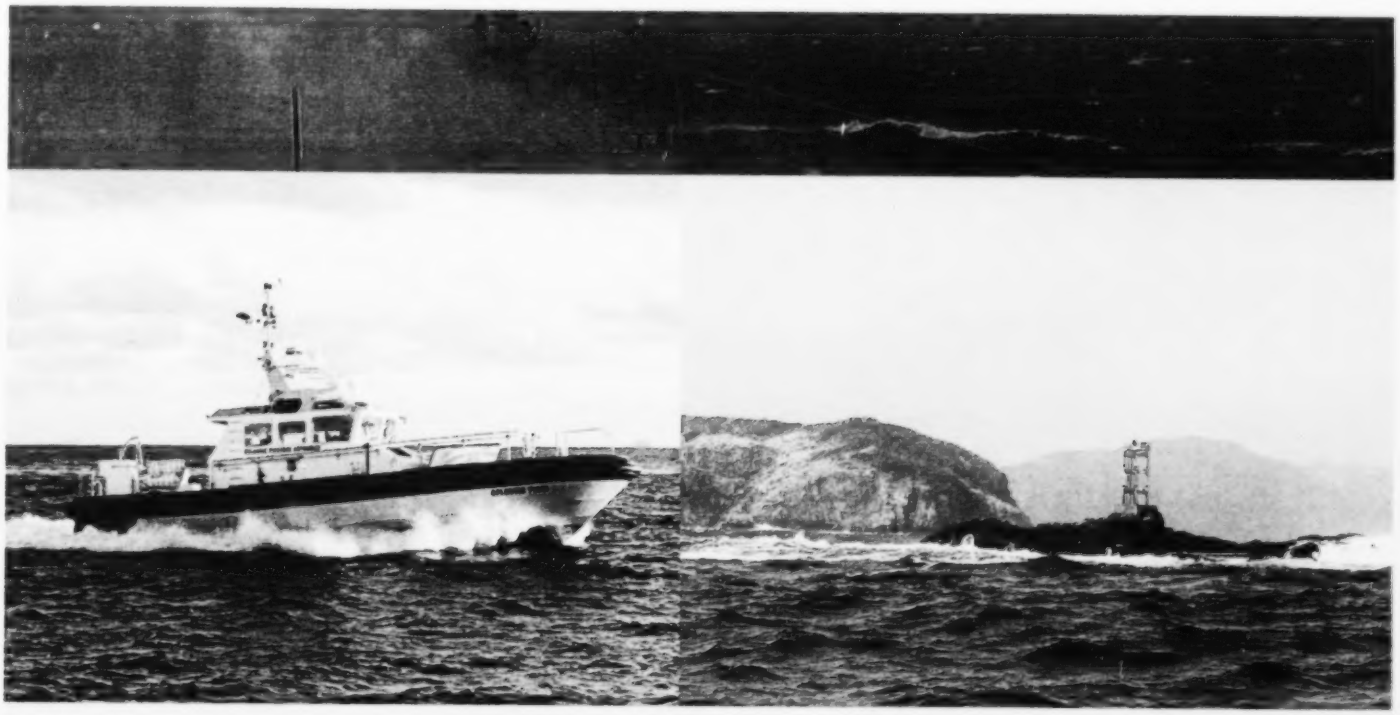


	2003	2004	2005	2006	2007
Budget	14,950	16,151	16,244	16,871	17,161
Actual	16,438	15,988	16,172	14,796	16,864

Comparison of Budgeted and Actual Expenses 2007, in thousands of dollars



	Pilot's fees, salaries & benefits	Pilot boat operating costs	Other operating costs	Admin-stration salaries	Trans-portation & travel	Professional & special services	Dispatch operations
Budget	8,022	4,919	1,398	867	597	505	447
Actual	8,709	4,893	1,455	944	704	339	496



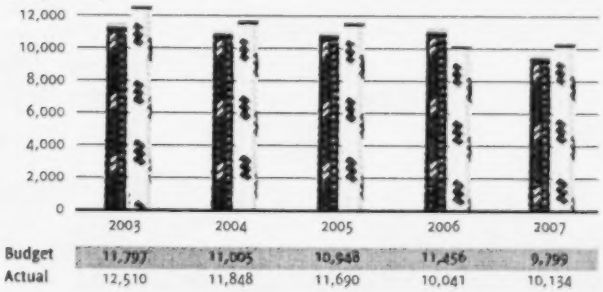
The Atlantic Pilot in Placentia Bay, NL.

Ironskull Rock, Placentia Bay.

producer for the Authority with 25.4% and was the port with the most pilotage assignments. Canso remained the third largest compulsory pilotage revenue contributor at 16.4%, while Saint John increased to contribute 15.9%. The four major ports, in total, contributed 85.8% of the compulsory pilotage revenue with the minor ports producing the remaining 14.2%.

In most compulsory areas, the Authority's tariff charges for pilotage services are composed of two components, a basic (or fixed) charge for the port and a unit (or variable) charge that is based on a calculation of the size of the vessel. This calculation uses certain ship dimensions and the resulting product is known as the number of pilotage units in a vessel. The average ship size, expressed in terms of the pilotage units, may vary greatly from port to port. The tariff set for each port is based on the amount of traffic, the average size of ship, the length of the pilotage assignment, and other expenses inherent in the port.

Budgeted and Actual Pilotage Assignments
2003-2007



	2003	2004	2005	2006	2007
Budget	11,797	11,005	10,948	11,456	9,799
Actual	12,510	11,848	11,690	10,041	10,134

PILOTAGE ASSIGNMENTS

	2007	2006	2005
COMPULSORY AREAS			
New Brunswick			
Saint John	2,044	1,334	1,623
Miramichi	8	10	9
Restigouche	97	101	92
Newfoundland and Labrador			
St. John's	419	1,027	1,584
Holyrood	37	55	80
Placentia Bay	1,163	999	1,283
Humber Arm	267	345	347
Stephenville	28	17	155
Bay of Exploits	120	115	119
Nova Scotia			
Halifax	3,217	3,313	3,759
Strait of Canso	1,485	1,453	1,257
Sydney	277	318	359
Bras d'Or	65	90	90
Pugwash	87	90	127
Prince Edward Island			
Charlottetown	173	220	163
Confederation Bridge	95	130	114
NON-COMPULSORY AREAS	552	424	529
Total	10,134	10,041	11,690
Pilotage Units*	3,576,833	3,368,986	3,578,866

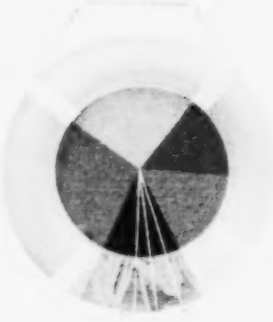
**Pilotage units means a measurement of the size of the ship, and includes these dimensions: length, breadth, and moulded depth of a ship.*

The Atlantic Pilot nears completion.

Freezing spray coats the deck of a tanker bound for Whiffen Head.

During 2007, the Authority implemented tariff increases within eight of the sixteen compulsory pilotage areas. The increases ranged between 4% and 25% in individual ports, and the overall impact was a 7.30% increase in tariffs for the Authority as a whole. The remaining 8 compulsory ports did not have tariff increases. The Authority strives to provide an efficient, professional pilotage service at the lowest cost for the customer, while avoiding cross subsidization among ports.

Nova Scotia	52.5%
New Brunswick	22.5%
Newfoundland & Labrador	22.0%
Prince Edward Island	3.0%



Placentia Bay	28.2%
Halifax	25.4%
Canso	16.2%
Saint John	15.9%
Other	14.3%
Sydney	2.8%
St. John's	2.6%
Humber Arm	2.6%
Other Compulsory	6.3%

Pilotage Areas and Compulsory Pilotage

A cruise ship being piloted through the Narrows as it enters the harbour at St. John's, NL.

AREAS OF OPERATION

The *Pilotage Act* has defined the Atlantic Pilotage Authority's area of operation as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador. Within this region, the Authority has designated 16 compulsory pilotage areas. These areas are indicated on the map located on this page.

The areas of Voisey's Bay, NL and St. Croix River/Bayside, NB, are expected to become compulsory areas in 2008. Those areas have been included on the map as proposed compulsory areas.

COMPULSORY PILOTAGE AREAS

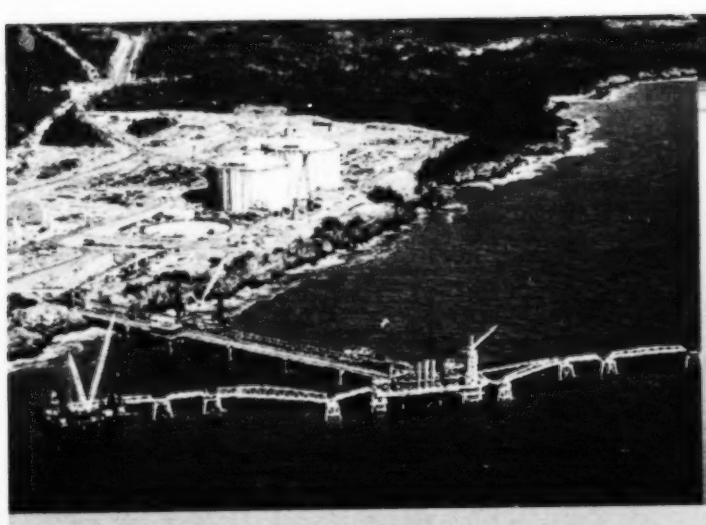
New Brunswick	Saint John, Miramichi, Restigouche
Newfoundland and Labrador	Bay of Exploits, Holyrood, Placentia Bay, Stephenville, Humber Arm, St. John's
Nova Scotia	Bras d'Or Lakes, Halifax, Pugwash, Strait of Canso, Sydney
Prince Edward Island	Charlottetown, Confederation Bridge

VESSELS SUBJECT TO COMPULSORY PILOTAGE

Ships meeting certain criteria must have a pilot on board in order to sail within the compulsory areas. In general terms, the following ships are subject to compulsory pilotage within the compulsory areas:

- Canadian registered ships of more than 1,500 gross tons;
- Ships not registered in Canada;
- Oil rigs;
- Pleasure craft over 500 gross tons;
- Any combination of tug and tow, if more than one unit is being towed;
- Ferries that are entering or leaving a port that is not one of their regularly scheduled terminals.

There are several exemptions and exceptions within these categories. For example, Canadian government vessels, Canadian registered fishing vessels, and Canadian registered offshore supply vessels of 5,000 gross tons or less with a base of operations within a compulsory port are all exempt. For a full understanding of ships subject to compulsory pilotage, please refer to the **Atlantic Pilotage Authority Regulations** available on the internet at www.tc.gc.ca or www.atlanticpilotage.com.



Canaport LNG is constructing a state-of-the-art LNG receiving and regasification terminal in Saint John, New Brunswick that will begin operations in late 2008. It will be the first LNG regasification plant in Canada, sending out natural gas to both Canadian and American Markets with a send-out capacity of 1 billion cubic feet (28 million cubic meters) of natural gas a day.

The terminal at Edwards Cove used to ship nickel from Voisey's Bay, NL. (photo courtesy of Vale Inco Newfoundland & Labrador Limited)

On the Horizon

Outlook

During 2007, the Board and management of the APA began a Directional Planning process that will provide longer term planning than currently contemplated by the Corporate Planning process. The Directional Plan is designed to encompass planning for a 15 year period, allowing management and the Board to focus attention over a longer period. While the Directional Plan is a work in progress, the fundamental principles have been incorporated into our Corporate Plan.

Business Growth

Regulations will be amended early in 2008 to designate the Voisey's Bay area in Labrador as a compulsory area. The Croix River/ Port of Bayside in New Brunswick is expected to become a compulsory area by the end of 2008. Because of the limited amount of traffic in these areas, it is not expected that either one will have a significant financial or operational impact on the Authority.

The long term outlook for the port of Saint John, NB, is positive. The LNG terminal proposed for Saint John is proceeding on schedule, and will bolster that port by the end of 2008. There is also a new oil refinery with a capacity of 300,000 barrels per day being proposed for Saint John that will double the current refining capacity in the city. And a new potash mine is being constructed near Sussex that will provide increased export business in the port. Both of these projects are targeted to be completed by 2013- 2014.

Many ports are working diligently to build the cruise ship industry in Atlantic Canada. Ports such as Halifax, Saint John, Charlottetown, and Sydney are all expecting significant increases in cruise ship calls in 2008.

In the Placentia Bay area of Newfoundland, there is potential for more industry, with a proposed new oil refinery at Come-by-Chance, with a proposed LNG transshipment terminal near Arnold's Cove, and with a nickel smelter to be built to process Voisey's Bay ore in nearby Long Harbour. If these projects proceed the future will look very bright in that area.

There is potential for more growth in the Canso, NS, region with the construction of a third pier at Statia Terminals, and with preliminary discussions being held about the establishment of a container terminal.

On the negative side, the paper mill in the port of Dalhousie (Restigouche), NB, closed near the end of 2007, causing a loss of about 75% of the business in that port.

Pilot Boat Replacement

The Authority will continue its pilot boat replacement program by planning two new boats, one each for the ports of Halifax and Saint John. These two ports have similar requirements and the Authority will work to finalize a design for these boats in 2008. The plan is for the construction of the two boats to be completed by the end of 2010. The Authority will implement a surcharge in 2008 intended to fund the design and initial construction of these boats.

Tariff Increases

After analyzing projections for coming years, and consulting with industry, the Authority received approval to increases tariffs in eleven ports effective January 1, 2008. The tariff increases, estimated to be an overall increase of 8.12%, are required to allow the Authority to operate in a self sustaining manner while minimizing cross subsidization among ports.

Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles on a basis consistent with the preceding year, except for changes in the method of accounting for financial instruments as explained in Note 4, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for developing and maintaining a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial information.

The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, and the bylaws of the Authority.

The Members of the Authority are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. These responsibilities are delegated to the Audit Committee. The Audit Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Members of the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements. She has full and free access to the Audit Committee of the Authority, and her report follows.

R.A. McGuinness
Chief Executive Officer

P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
February 15, 2008

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 2007 and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, except for the change in the method of accounting for financial instruments as explained in Note 4 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

John O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
February 15, 2008

Balance Sheet

As at December 31, 2007

in thousands		2007		2006
ASSETS				
Current				
Cash and cash equivalents (Note 5)	$	248	$	1,888
Accounts receivable, net (Note 5)		2,034		2,016
Prepaid expenses		81		50
Other expenses		55		–
		2,418		3,954
Long-term				
Investments at cost (Note 5)		–		69
Investments classified as held for trading (Note 5)		82		–
Segregated investments at cost (Note 5)		–		887
Segregated investments classified as held for trading (Note 5)		721		–
Property and equipment, net (Note 6)		8,016		3,713
		8,819		4,669
	$	11,237	$	8,623
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 5)	$	1,727	$	2,586
Current portion of bank loans (Note 8)		176		–
Accrued obligation for employee severance benefits (Note 9)		211		66
		2,114		2,652
Long-term				
Bank loans (Note 8)		3,791		–
Accrued obligation for employee severance benefits (Note 9)		1,038		994
		4,829		994
		6,943		3,646
EQUITY OF CANADA				
Contributed capital		2,305		2,305
Retained earnings		1,989		2,672
		4,294		4,977
	$	11,237	$	8,623

Commitments (Note 13)

Contingencies (Note 14)

The accompanying notes are an intergral part of these financial statements.

Approved by the Members of the Authority:

Member

Member

Statement of Income, Comprehensive Income and Retained Earnings

For the year ended December 31, 2007

in thousands	2007	2006
REVENUES		
Pilotage charges	$ 16,708	$ 14,627
Investment and other income	156	167
	16,864	14,794
EXPENSES		
Pilots' fees, salaries and benefits	8,709	7,774
Pilot boats, operating costs	4,893	4,639
Staff salaries and benefits	1,465	1,337
Transportation and travel	712	590
Amortization	390	275
Professional and special services	354	420
Utilities, materials and supplies	294	234
Training	286	166
Rentals	222	200
Communications	134	132
Interest expense	81	–
	17,540	15,767
Net loss before extraordinary item	(676)	(973)
Extraordinary gain (Note 10)	–	238
Net income and comprehensive income	(676)	(735)
Retained earnings, beginning of the year as previously reported	2,672	3,407
Effect of change in accounting policy (Note 4)	(7)	–
Retained earnings, beginning of the year as restated	2,665	3,407
Retained earnings, end of the year	$ 1,989	$ 2,672

The accompanying notes are an intergral part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2007

in thousands	2007	2006
OPERATING ACTIVITIES		
Cash receipts from customers	$ 16,536	$ 14,765
Cash paid to employees and suppliers	(17,851)	(14,342)
Other income received	192	158
Employee severance payments	–	(4)
Cash flows (used in) from operating activities	(1,123)	577
INVESTING ACTIVITIES		
Proceeds from sale of investments	264	315
Purchases of property and equipment	(4,748)	(2,094)
Extraordinary item – insurance proceeds (Note 10)	–	2,036
Cash flows (used in) from investing activities	(4,484)	257
FINANCING ACTIVITIES		
Proceeds from bank loans	4,000	–
Repayment of bank loans	(33)	–
Cash flows from investing activities	3,967	–
(Decrease) increase in cash and cash equivalents	(1,640)	834
Cash and cash equivalents, beginning of the year (Note 5)	1,888	1,054
Cash and cash equivalents, end of the year (Note 5)	$ 248	$ 1,888
SUPPLEMENTARY DISCLOSURE		
Interest paid	$ 81	$ –

The accompanying notes are an intergral part of these financial statements.

Notes to the Financial Statements

December 31, 2007

in thousands

1. OBJECTIVES AND ACTIVITIES

The Atlantic Pilotage Authority (the Authority) was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable, and sufficient, to permit the Authority to operate on a selfsustaining financial basis. Under the *Pilotage Act*, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. REGULATION OF PILOTAGE CHARGES

The approval process for setting tariffs for pilotage charges is set out in the *Pilotage Act*. The Authority, with the approval of the Governor in Council, makes regulations prescribing tariffs. The Authority must publish proposed tariffs in the *Canada Gazette* and any interested party who has reason to believe that a proposed tariff is prejudicial to the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency (CTA) within thirty days following publication of the proposed tariff.

The CTA must investigate the proposed pilotage charge set out in the notice of objection. Once its investigation is complete, the CTA must make a recommendation within 120 days following the receipt of the notice of objection, and the Authority must govern itself accordingly.

The tariffs may come into force 30 days after publication in the *Canada Gazette*. However, where the CTA recommends a pilotage charge that is lower than that prescribed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the CTA, with interest, to any person who has paid the prescribed charge. The Governor in Council may vary or rescind a recommendation of the CTA.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Cash equivalents

Cash equivalents represent short-term, highly liquid investments. Cash equivalents are designated as held for trading and are recorded at fair value.

(b) Investments and segregated investments

The objective of the Authority's long-term investment policy is to maximize the investment rate of return in a government guaranteed bond portfolio.

The Authority has elected to designate all investments as held for trading. Consequently, investments are recorded at fair value. The fair value is based on the quoted market price of the investments at year end. Purchases and sales of investments are recognized on settlement date.

Realized gains and losses from the sale of investments are recognized in investment income in the period earned. Unrealized gains and losses from fluctuations in fair value are recognized in investment income in the period in which they occur. Investment income from interest is recognized in the period earned. Investment income is presented net of investment expenses.

(c) Property and equipment

Property and equipment are recorded at cost. The cost of pilot boats under construction includes design, material and direct labour. Amounts included in pilot boats under construction are transferred to the pilot boat classification upon completion, and are then amortized. Amortization of property and equipment is calculated on a straightline basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years
Leasehold improvements	10 years

(d) Bank loans

Bank loans are initially recorded at fair value. After initial recognition, bank loans are measured at amortized cost using the effective interest method.

(e) Employee severance benefits

Employees are entitled to specified benefits on termination as provided for under collective agreements and conditions of employment. The Authority recognizes the cost of the future severance benefits over the period in which the employees render services to the Authority and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determined the accrued obligation for severance benefits using a method based upon assumptions and its best estimates. Changes to these estimates are charged or credited to the Statement of Income, Comprehensive Income and Retained Earnings in the period they are reassessed. These are the only obligations of the Authority for severance benefits that entail settlement of future payment.

(f) Pension plan

All eligible employees are covered by the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Authority. Contributions are expensed in the period in which services are rendered. The Authority is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

(g) Contributed capital

Contributed capital consists of the estimated historical cost of capital assets obtained from Canada when the Authority was established and the capital assets financed from parliamentary appropriations.

(h) Revenue recognition

Revenues from pilotage charges are recognized when pilotage services are provided.

(i) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The estimated useful lives

of equipment and the accrued obligation for employee severance benefits are the most significant estimates subject to measurement uncertainty. Actual results could differ from those estimates.

(j) Future accounting changes

On December 1, 2006, the Canadian Institute of Chartered Accountants (CICA) issued two new accounting standards: Handbook Section 3862, *Financial Instruments – Disclosures* and Handbook Section 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how an entity manages those risks. These standards apply to fiscal years beginning on or after October 1, 2007 and accordingly will be effective for the Authority on January 1, 2008. These sections are currently being assessed by management to determine the applicability and impact on the Authority's financial statements.

4. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007, the Authority adopted the new CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, and Handbook Section 1530, *Comprehensive Income*. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments as well as recognition of certain transition adjustments that have been recorded in the Authority's opening retained earnings. As required by the implementation of these new standards, the comparative financial statements have not been restated.

On January 1, 2007, the Authority elected to designate its cash equivalents and investments as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. The change in accounting policy has been made in accordance with the transitional provisions of Section 3855. On January 1, 2007, the Authority's cash equivalents and investments were revalued from a carrying value of $1,186 to a fair value of $1,179. The difference of $7 was reclassified as an adjustment to the opening balance of retained earnings.

Accounts receivable, classified as loans and receivables, and accounts payable and accrued liabilities, classified as other financial liabilities, are initially measured at fair value, which due to their short-term nature, approximates their amortized cost. Bank loans are classified as other financial liabilities and are initially measured at fair value. Subsequent periodical revaluations of other financial liabilities are recorded at amortized cost using the effective interest rate method. The Authority is not party to any derivative financial instruments or hedges.

Section 1530 requires the presentation of comprehensive income, which consists of net income and other comprehensive income. Comprehensive income is the change in equity of an entity during a period from transactions and other events and circumstances from non-owner sources. After having determined that it had no other comprehensive income items to report in its financial statements, the Authority created a combined Statement of Income, Comprehensive Income and Retained Earnings. The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income.

5. FINANCIAL INSTRUMENTS

In accordance with the *Pilotage Act*, the Authority is only permitted to invest in Government of Canada Treasury bills and government guaranteed bonds. Investments are at fixed rates of interest until maturity. The Authority's investments are not considered to have any significant exposure to credit risk. The Authority has no investments denominated in foreign currencies.

Segregated investments represent one fund established for pilot boat replacement and the funding of employee severance benefits. The level in the fund is based upon the cash provided by operating activities in the previous year. An amount of $166 was withdrawn from segregated investments during 2007 (2006 – nil).

Accounts receivable and accounts payable are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximate fair value because of their short term to maturity. There is no significant credit risk with accounts receivable as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the Act provides a mechanism to withhold customs clearance if pilotage charges are unpaid.

	2007 Fair Value	Yield (%)	Fair Value	2006 Carrying Value	Yield (%)
Cash	$ 248		$ 1,811	$ 1,811	
Maturing within 3 months:					
Government of Canada bonds	–		96	77	4.56
Total cash and cash equivalents	$ 248		$ 1,907	$ 1,888	
Maturing within 3 years:					
Government of Canada bonds	$ 286	3.90	$ 350	$ 301	3.90 - 4.71
Provincial bonds	517	3.44 - 4.23	657	581	3.19 - 5.02
	803		1,007	882	
Maturing beyond 3 years:					
Provincial bonds	–		76	74	3.44
	–		76	74	
Total investments and segregated investments	$ 803		$ 1,083	$ 956	

	2007	2006
Interest from investments	$ –	$ 74
Gains and losses		
Realized gains in the last year	77	–
Changes in fair value in the year	(36)	–
Investment income	$ 41	$ 74

6. PROPERTY AND EQUIPMENT

2007	Cost	Accumulated Amortization	Net
Land	$ 1	$ –	$ 1
Pilot boats	10,430	2,859	7,571
Pilot boats under construction	–	–	–
Furniture and equipment	1,136	733	403
Leasehold improvements	204	163	41
	$ 11,771	$ 3,755	$ 8,016

2006			
Land	$ 1	$ –	$ 1
Pilot boats	3,750	2,599	1,151
Pilot boats under construction	2,264	–	2,264
Furniture and equipment	919	682	237
Leasehold improvements	202	142	60
	$ 7,136	$ 3,423	$ 3,713

7. OPERATING CREDIT FACILITY

The Authority has an operating credit facility of up to $1,000 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2007 (2006 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

8. BANK LOANS

The Authority has approval from the Minister of Finance to borrow $4,500 to finance the construction of two pilot boats. As at December 31, 2007, the Authority had drawn down $4,000 (2006 – nil) with repayment of $33 during 2007. An additional $500 was drawn down in 2008.

	2007	2006
Demand loan, payable in monthly instalments including interest at 5.06%, amortized over 15 years, maturing on September 1, 2012, unsecured	$ 2,967	$ –
Demand loan, payable in monthly instalments including interest at 5.03%, amortized over 15 years, maturing on February 1, 2013, unsecured	1,000	–
	$ 3,967	$ –
Current portion	$ 176	$ –
Long-term portion	3,791	–
	$ 3,967	$ –

As at December 31, 2007, the fair value of the bank loans is estimated at $3,974 (2006- nil). The estimate is based on the future principal repayments discounted at current interest rates for similar loans.

The principal payments required in each of the next five years are:

2008	$ 176
2009	192
2010	202
2011	213
2012	181
	$ 964

9. EMPLOYEE SEVERANCE BENEFITS

The Authority provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued obligation. Information about the plan, measured at December 31, is as follows:

	2007	2006
Assumptions:		
Discount rate	4%	4%
Inflation rate	2%	2%
Minimum expected service	10 years	10 years
Age at retirement	60 years	60 years
Annual amounts:		
Accrued obligation for employee severance benefits, beginning of the year	$ 1,060	$ 925
Cost for the year	189	139
Benefits paid during the year	–	(4)
Accrued obligation for employee severance benefits, end of the year	$ 1,249	$ 1,060
Current portion	$ 211	$ 66
Long-term portion	1,038	994
	$ 1,249	$ 1,060

10. EXTRAORDINARY GAIN

The Authority had previously recognized a pilot boat and its spare parts in property and equipment valued at $1,798. The pilot boat became inoperable due to an accident in May 2006. The Authority received proceeds of $2,036 from insurance and the sale of residual parts and equipment during that year. The excess of proceeds over the net book value was recognized as an extraordinary gain in 2006.

11. PENSION PLAN

The Authority and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions to the Public Service Pension Plan consisted of:

	2007	2006
Contributions by the Authority	$ 988	$ 820
Contributions by employees	$ 511	$ 351

12. RELATED PARTY TRANSACTIONS

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. These transactions are not of significance, and do not have a material effect on these financial statements.

13. COMMITMENTS

The Authority has entered into contracts for pilot boat services, office rentals, wharfage rentals, and construction of new pilot boats requiring the following minimum payments:

2008	$ 1,876
2009	202
2010	167
2011	129
2012 and beyond	718
	$ 3,092

14. CONTINGENCIES

The Authority is subject to claims or possible claims by third parties. The outcome of these claims or possible claims is not determinable at this time. Management is of the opinion that the resolution of these matters will not have a material adverse impact on the Authority.